

Message Text

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E.O. 11652: N/A
TAGS: EINV EG
SUBJECT: EFFECT OF JANUARY CIVIL DISTURBANCES ON INVESTMENT
INTENTIONS OF U.S. FIRMS

SUMMARY: WHILE THERE IS SOME EVIDENCE THAT FIRMS WITH LITTLE
PREVIOUS EXPERIENCE IN EGYPT MAY HAVE BEEN DETERRED BY RIOTS
FROM GOING FORWARD WITH IDEA OF INVESTING HERE, FIRMS WITH EX-
ISTING INTERESTS IN SPECIFIC PROJECTS ARE IN MOST CASES CON-
TINUING TO PURSUE THEM WITHOUT REGARDING DISTURBANCES AS A
SERIOUS THREAT. END SUMMARY.

1. JANUARY'S CIVIL DISTURBANCES IN EGYPT APPEAR TO HAVE HAD
NO SUBSTANTIAL NEGATIVE IMPACT ON INVESTMENT PLANS OF SERIOUS
PROSPECTIVE INVESTORS--THOSE FIRMS WHO FOR SOME TIME HAVE AC-
TIVELY BEEN PURSUING SPECIFIC PROJECTS HERE.

2. GOODYEAR REPRESENTATIVE, FOR EXAMPLE, IN CONVERSATION WITH
AMBASSADOR ON WEEKEND FOLLOWING THE RIOTS, INDICATED THAT WHILE
SUCH EVENTS WOULD CERTAINLY NOT BE VIEWED BY BOARD OF DIREC-
TORS AS A FAVORABLE FACTOR IN MAKING FINAL DECISION ON
WHETHER TO GO AHEAD WITH AN INVESTMENT IN EGYPT, THEY WERE
NOT A MAJOR ELEMENT IN FIRM'S THINKING. PRIMARY CONSIDERATION
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REMAINED WORKING OUT A PROPOSAL ACCEPTABLE TO THE COMPANY WHICH
(AGAINST FRENCH COMPETITION) WOULD GAIN APPROVAL OF EGYPTIAN
INVESTMENT AUTHORITY. HIS PRESENCE WAS EVIDENCE THAT COMPANY
WAS STILL ACTIVELY PURSUING THE PROJECT.

3. UNION CARBIDE REP. WAS SIMILARLY "UNFAZED" BY DISTURBANCES.
HE IS CONTINUING TO PUSH COMPANY'S BATTERY PLANT PROPOSAL AND

TO CAST ABOUT FOR MEANS OF MAKING IT ACCEPTABLE TO EGYPTIAN
AUTHORITIES.

4. A LOCAL CONSULTANT FOR CLARK EQUIPMENT COMPANY, WHICH HAS
BEEN INTERESTED IN ESTABLISHING A FACTORY TO PRODUCE FORK LIFTS,
URGED COMPANY TO FOLLOW THROUGH WITH PREVIOUSLY SCHEDULED
PLANS TO VISIT EGYPT IN PERIOD JUST AFTER DISTURBANCES. COM-
PANY ACCEPTED CONSULTANT'S RECOMMENDATION AND HAD USEFUL TRIP
HERE IN FURTHERANCE OF INVESTMENT PROJECT.

5. SQUIBB DRUG CO. REP. TOLD EMBOFF THAT HIS FIRM HAD TAKEN
MAJOR DECISION MOVING FORWARD ON COMPANY'S EGYPTIAN INVEST-
MENT PROJECT ON VERY DAY CAIRO RIOTS WERE BEING HEADLINED
IN U.S.

6. REASON ADDUCED BY FIRMS FOR RELATIVE LACKS OF CONCERN
ARE VARIED, BUT INCLUDE FOLLOWING CONSIDERATIONS:
A) ALTHOUGH GOE FAILED PREVENT OUTBREAK OF DISTURBANCES IT
DID MANAGE TO QUELL THEM BEFORE SITUATION GOT COMPLETELY OUT
OF HAND. RIOTS MAY HAVE RESULTED IN IMPROVEMENT OF INTERNAL
SECURITY MEASURES AND OF COMMUNICATIONS WITHIN GOVERNMENT
AND BETWEEN GOVERNMENT AND PEOPLE WHICH COULD HAVE OVERALL
EFFECT OF STRENGTHENING GOE.

B) SOME PROTECTION AGAINST RISKS OF DISTURBANCE-RELATED
DAMAGE OR OF EXPROPRIATION BY A NEW REGIME CAN BE COVERED BY
SUCH DEVICES AS OPIC INSURANCE.

C) INVESTMENT ANYWHERE, ESPECIALLY IN THIRD WORLD, CARRIES
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SUBSTANTIAL RISK OF LOSS FROM POLITICAL INSTABILITY, BUT
EGYPT NO WORSE RISK THAN OTHER PLACES WHERE COMPANIES HAD
INVESTMENTS. EVEN IN U.S., DU PONT REPRESENTATIVE NOTED,
THERE HAD BEEN URBAN RIOTS IN 60'S. HE ALSO RECALLED PARIS
DISTURBANCES IN 1968, WHICH HAD HAD SERIOUS POLITICAL REPUR-
CUSSIONS.

D) EVEN IF DISTURBANCES RESULTED IN FALL OF SADAT REGIME,
THIS WOULD NOT NECESSARILY MEAN LOSS OF COMPANIES' INVEST-
MENT--ESPECIALLY IF PROJECT INVOLVED WERE TRULY BENEFICIAL
FOR THE COUNTRY.

E) SOME FIRMS HAVE, OR PLAN TO HAVE, RELATIVELY LITTLE IN
TANGIBLE ASSETS AT RISK.

7. SOME SOURCES, INCLUDING A LOCAL BANKER AND A WELL-KNOWN
BUSINESS-CONSULTANT HAVE REPORTED INSTANCES OF FIRMS WITH WHICH
THEY DEALT BEING DECISIVELY DETERRED BY RIOTS FROM PURSUING
POSSIBLE INVESTMENT PROJECTS HERE. FIRMS MENTIONED, HAD

LITTLE EXPERIENCE IN EGYPT AND HAD NOT GOTTEN VERY FAR IN THEIR INVESTMENT PLANS.

8. ECONOMIC/FINANCIAL (INCLUDING FOREIGN EXCHANGE) CONSIDERATIONS ON PART OF FIRMS, AND RELATED PROBLEM OF OBTAINING INVESTMENT AUTHORITY APPROVAL OF PROJECTS REMAIN FAR AND AWAY THE MOST SERIOUS IMPEDIMENTS TO PRIVATE FOREIGN INVESTMENT IN EGYPT. SUCH NEGATIVE EFFECT AS THE RIOTS HAVE HAD WOULD BE LIKELY TO DISSIPATE QUICKLY IF, FOR EXAMPLE, CHANGES IN INVESTMENT LAW AND ITS IMPLEMENTATION LED TO A FEW MAJOR EXAMPLES OF SUCCESSFUL FOREIGN INVESTMENT PROJECTS.
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Sent Date: 23-Feb-1977 12:00:00 am
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